

SUMMARY

Driven by the strong economic upswing in the year 2000 the "wanderlust" of the Swiss kept growing by 2.5 percent over 1999. Unemployment dropped to 1.8 percent and GDI grew by 3.2 percent. Consumer confidence is measured, in particular, by the rate of travel. The Swiss are, after their northern neighbors in Germany, the most ardent travellers of all Europeans. The world's highest per capita income and the resulting purchasing power makes the Swiss sought after tourists. Some 9 billion dollars were spent on travel arrangements to go abroad in 2000. This figure does not include spending for food, entertainment, shopping etc. The fact that Switzerland is an attractive market is reflected by the aggressive promotional programs which were conducted in 2000 by 97 foreign countries, cities and regions. The United States has been ranking at the top of all overseas destinations for the Swiss for the past decade. With over 400,000 visitors per year it is leading all following destinations such as Canada, Asian countries etc. by a factor four and more.

This positive environment plays a role in the selection of destinations for incentive travel. The more popular a destination the more attractive is the incentive. The main handicap of the U.S., although partly offset by its popularity, is the long distance which needs to be covered to get there. The time factor is significant as incentive trips typically average between 3-5 days. Short 3 days trips, as a result, tend to stay within Europe. Luxurious Middle Eastern destinations (Emirates, Oman, etc.) within easy reach, are also very popular. The U.S. comes into play for incentive trips of five days and above. A growing factor in favor of the U.S. are the close and significant economic ties between the two countries. Incentive programs increasingly tend to include product/company related trainings and other relevant activities involving plant and site visits in the country of origin. As an illustration Switzerland is importing more from the U.S. than Italy with a sixfold larger population. Over 400 Swiss companies in the U.S. employ over 300,000 and the some 600 U.S. companies in Switzerland about 60,000. An impressive example of this trend is Ammann AG, the Swiss rep of Caterpillar. Its incentive travel program (which will be repeated at regular intervals) consisted of 10 groups of clients totalling 400 people which were taken to the U.S. over a period of 6 weeks visiting sites and plants.

Travel as a promotional tool, although known for years, is still considered a somewhat unusual concept by many Swiss. However, the heavy international economic involvement of Switzerland (50% of the GDI are generated on the international market) and the need for novel marketing techniques seem to have triggered a rethinking. The company Worldspan, market leader in Switzerland, has been reporting an annual growth of 15 percent over the past 4 years. Traditional tourist travel only grew between 2-3.5 percent during the same period of time. Major tour operators considering the potential to be developed are in the process or already have established their own incentive travel departments.

Incentive travel is one of the few remaining fields on the Swiss travel market where attractive growth rates are still possible. The U.S., with good marketing and some continuity, should be in a position to get a fair share of the medium and upper priced market segment.

A. Market Overview

Market insiders expect the Swiss incentive travel market to climb to annually \$ 600-700 million until 2010. The number of specialized tour operators, including newly founded companies, will increase as a result. There will be room for cooperation with new-to-market incoming operators and other relevant specialists including U.S. A \$ 700 million market will place Switzerland proportionally at the level of the \$ 24 billion U.S. incentive travel market. However, as opposed to the U.S. most of the incentive travel generated in Switzerland will be outbound (leaving the country).

Incentive travel specialists are referring to the large number of international corporations with headquarters or regional headquarters in Switzerland. Alone within the past five years some 150 multinational U.S. companies have set-up office in the country, the highest number in Europe. Many of them are potential clients for (costly) incentive travel programs not only from Switzerland but also from other countries which they cover.

Travel products and related services are subject to the Swiss value added tax (MWST = German/TVA = French) of 7.6 percent. This value added tax is deductible if the incentive package is a clearly defined promotional tool (business expense).

The same is true for the cost of incentive travel per se which may be deducted as a business expense if clearly defined.

Switzerland has no restrictions for the transfer of funds. Cash payments of over SF 15,000 (approx. \$ 10,000.00) are subject to the law for the prevention of money laundering.

Virtually all companies and some 45 percent of the Swiss households have direct access to the web. The web, as a result, is available as an efficient tool for marketing and as a source of information.

B. Market Trends

Incentive travel has been identified in the Swiss travel trade as the market segment with the best growth potential in the years to come. There are about 15 major players at this time. However, the number is growing. Small but efficient, highly specialized agencies with good industry contacts are establishing themselves successfully in specific niches. The univers of potential clients is also growing. One out of five companies is now looking at travel as a potential promotional tool. The ratio has been one out of 30 ten years ago. Data obtained from 3 leading incentive specialists show the following picture about how incentive travel is being used.

Groups by main focus: (overlapping as most incentives have several focuses)

- dealer incentive	60 %
- sales incentive	75 %
- motivation*	50 % (not directly sales related*)
- consumer promotion	70%

*Travel for motivational and educational purposes as well as travel to promote team spirit and loyalty have been the fastest growing programs.

Cost & Budgeting

The average spending per person on incentive travel is estimated by the same sources at:

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| - dealer related programs | \$ ~ 3,300.00 |
| - sales promotional programs | \$ ~ 2,200.00 |
| - motivational programs | \$ ~ 1,400.00 |
| - consumer programs | \$ ~ 1,100.00 |

Procurement - Purchase

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| - by company internal organization/purchase of travel components (flights, hotels, transfers etc.) from retailers or directly | 52% |
| - full service packages from incentive specialists | 40% |
| - organization and purchase via PR/advertising agencies/specialists | 8% |

Total sales of incentive travel, although still modest in comparison to the overall travel figures, grew from \$ 45 million in 1990 to an estimated \$ 180 million in 2000. About 75 percent was outbound. A growing trend is the inclusion of team activities and outdoor events (soft adventure type activities such as rafting, biking, skiing etc.), particularly in incentives with sales promotional, educational as well as motivational goals.

C. Import Market

The purchase of travel related products and services abroad are treated as imports in this report. Although no hard figures exist the three market leaders estimate that incentive travel products purchased by Swiss operators totalled \$ 180 million in the year 2000. This includes anything from transportation (flights, bus, train) to hotels, transfers, food, entertainment and event related cost. Not included are expenses to pay for the services of hired specialists like motivational trainers, etc. Some \$ 1.2 billion were transferred in 2000 from Switzerland to the U.S. as payments for travel related services. Out of this about \$ 40 million were identified as being directly linked to incentive travel.

D. Competition

European countries, particularly France and Italy, are picking up the largest number of short incentive trips. The average duration of such trips typically is three days. Middle Eastern countries are popular for longer incentives of up to five days. The U.S. comes into play for trips of 5 days and more. Its main competitors are the Emirates as well as destinations like Singapore, Malaysia and Thailand. The strong economic ties between Switzerland and the U.S. increasingly seem to tip the balance in favor of the United States, particularly when it comes to training, plant and site visits etc. The growing need for continuous training, particularly in high tech fields, is also working in favor of the U.S. American incentive operators can look back on many years of experience

which is putting them in a good position. Experts believe that the U.S. will be getting a larger share of the growing market as a result. Estimates speak about one third of the total outbound incentive market as opposed to the present 18 percent in the next 3-5 years.

E. End users and market access

Estimates were made in 1999 by specialists to determine the number of potential users of incentive travel in Switzerland. Based upon criteria such as promotional budgets, company size, type of products/services and international operation the market was found to include some 2,000 - 2,500 "candidates". Over two thirds of these firms have never used travel as an incentive up-to-date. This leaves an attractive market potential to be developed although with a substantial educational effort.

The Swiss travel market is very competitive and rather sophisticated. Although widely open, new-to-market companies will have to cope with very stiff competition and a rather demanding clientele. The U.S. in particular, is a rather well known destination. Partnering with a relevant Swiss specialist proved to be the most cost effective approach, as opposed to setting-up an own office. Smaller agencies, in particular, may have an interest in working with competent incoming operators to cover all local arrangements. PR and advertising agencies are also good contacts as they counsel their clients with respect to their promotional activities. Personal contact is very important. Swiss like to have long lasting business relations based on mutual trust. English is widely spoken and not a major hurdle any longer. Virtually all incentive specialists attend trade shows such as EIBTM. The trade magazines M.C.I (Meetings, Incentives & Conventions) as well as the Travel Manager are well established and widely read publications.

F. Contact addresses:

Trade Shows/Promotional Events

a) E.I.B.T.M.

14th European Incentive & Business Travel & Meetings Exhibition, with Conferences
Palexpo Geneva
May 29-31, 2001
Main European Incentive Travel Show

Contact:

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b) Travel Trade Workshop (TTW),

Maison des Congres, Montreux
October 23-25, 2001
Main Swiss Trade Show for Outbound Travel – Over 1000

exhibitors from over 100 countries

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Main incentive operators (full package):

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|-----------------------------|--------------------------------|
| - Worldspan International | - American Express |
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| Major incentive specialist | Business travel/incentives |
| | Medium sized |
|
 | |
| - Spectrum Events | - MCI |
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\$ 1.5 billion sales, TO

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Small – Incentive cruises

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TUI group

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| Medium sized TO | Small/specialized in |
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